GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1053
ANSWERED ON:23.11.2007
COLLECTION OF BAD DEBTS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Indian I tanking Association has asked all the banks to follow the industry code of conduct with regard to collection of bad debts;

(b) if so, the details thereof;

(c) whether the abusive practices being adopted by banks have eroded the faith of the banking sector;

(d) if so, the details thereof;

(e) whether the Consumer Forums and Courts have taken any action against the banks using abusive practices for recovering bad debts; and

(f) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance (Shri Pawan Kumar Bansal)

(a)&(b): Reserve Bank of India (RBI) has reported that the Indian Banks` Association (IBA) has formulated a `Model code for collection of dues and repossession of security` as also a `Fair Practices Code for credit carol operations` which has been recommended to banks for adoption and implementation. As per the Model Code, banks commit to maintaining dignity and respect to customers in their Debt Collection Policy and not follow policies that are unduly coercive in collection of dues. The Fair Practices Code for credit card operaiions incorporates a clause that the bank`s dues collection policy would be built on courtesy, fair treatment and persuasion.

(c)&(d): In the Mid-Term Review of Annual Policy Statement (dated October 30, 2007), RBI has observed that in view of the rise in the number of litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity could result in serious reputational risk for the banking sector as a whole. RBI has urged banks to follow prescribed specific considerations while engaging recovery agents and has clarified th it complaints received regarding abusive practices followed by a bank`s recovery agent would invite serious supervisory disapproval. RBI would consider Imposing a temporary ban (or even a permanent ban in case crpersistent abusive practices) for engaging recovery agents on those banks where strictures have been passed/penalties have been imposed by a High Court/Supreme Court or against its Directors/Officers with regard to the abusive practices followed by their recovery agents.

(e)&(f): The Hon`ble Supreme Court in Appeal (Criminal) 267 of 2007 (ICICI Bank Vs. Prakash Kaur & Other) observed that banks should resort to procedure recognized by taw to take possession of vehicles instead of resorting to stroig arm tactics. The Court also deprecated the practice of hiring recovery agents, who are musclemen.
Some of the leading rewspapers have reported recently that Delhi State Consumer Commission has slapped a fine of Rs,5i> lak i on ICTCI bank for trying to recover a vehicle loan by using forcible methods.